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STATE FOR WHA/BSC, WHA/EPSC AND GREG MANUEL
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SUBJECT: AMBASSADOR HOSTS BIOFUELS ROUNDTABLE

¶1. (U) Summary. On July 13, U.S. Ambassador Clifford Sobel hosted a roundtable on biofuels with representatives from Brazil's public, private, and academic sectors. The event marked the initiation of a dialogue to explore areas for strategic cooperation on research, development and commercialization for the next generation of biofuels. The discussion centered around three areas: 1) creating stable sources for supply for a new global biofuels market, 2) overcoming opposition to biofuels, and 3) addressing national and regional differences by creating a framework to harmonize standards and build international cooperation. Mission Brazil will explore additional opportunities to continue building a new partnership between Brazil and the United States on ethanol and biofuels. End Summary.

¶2. (U) Following up on the March 2007 US-Brazil Biofuels MOU signed by Secretary Rice and Brazilian Foreign Minister Celso Amorim, Ambassador Sobel launched on July 13 the first in a series of dialogues bringing together representatives from the public, private and academic sectors to discuss biofuels cooperation. Specifically, discussion was focused on research and development (R&D) and commercialization.

¶3. (U) Visiting U.S. Department of Energy (DOE) officials Brad Barton, Director of Commercialization and Deployment for Renewable Energy, and Dr. Dan Arvizu, Director of the National Renewable Energy Laboratory (NREL) participated and presented the U.S. Government's latest public initiatives for ethanol and biofuel development. 23 Brazilian participants attended, including executives from Petrobras and its subsidiaries BR and Transpetro; the Petrobras Research Center CENPES; US and non-US oil and biofuel companies Chevron, Shell, BRENCO, and Brasil Ecodiesel; the Brazilian National Oil, Gas, and Biofuel Regulatory Agency ANP; Brazilian Energy and Agricultural Research Institutions EPE and EMBRAPA, and several other key Rio-based biofuels players.

Creating Stable Sources of Supply

¶4. (U) Ambassador Sobel emphasized the importance of increasing the use of ethanol and biofuels given that the world consumes 79 billion of the 81 billion barrels of oil produced per day. Additionally with China's demand on the rise and projected to soon surpass that of the United States, secure sources of supply will be even more important. Various roundtable participants highlighted their own biofuels programs and discussed ways to increase cooperation.

¶5. (U) Petrobras representatives noted that about 10% of the company's annual budget (about US\$ 1.5 billion/year) goes to renewable energy. By the end of 2007, Petrobras expects to bring

its three first biodiesel plants online. It is also developing studies with the private sector to build new plants to allow the company to reach the B2 and B5 biodiesel mix to diesel by 2008. In the last few years, Petrobras has increased the number of its BR gas stations offering biodiesel in Brazil from three to 5,000.

¶6. (U) Brazil's National Petroleum, Gas and Biofuel Regulatory Agency (ANP) is the regulatory body that controls product quality. ANP currently certifies an ethanol/gasoline mix of 20-25% ethanol/75-80% gasoline. The ANP participant highlighted that ANP has approved 30 biodiesel producers to date; another 50 are under review. ANP has also recently approved eight new biodiesel projects. For example, the state of Sao Paulo is testing a new biofuel blend for buses, referred to as bio-oil (produced by BR/Petrobras Distribuidora), which contains 32% biodiesel/8% ethanol/62% diesel. ANP representatives also stated that Brazil has 351 ethanol producers that generate 18 billion liters/year, of which 15 billion liters are for internal Brazilian consumption and 3 billion liters are for export.

¶7. (U) A representative from the Brazilian Renewable Energy Company (BRENCO), a five-month old company that produces and distributes ethanol and biofuels, said that BRENCO plans to produce four billion liters of ethanol per year. BRENCO is also on the cutting edge of that sector in Brazil, exploring production of the next generation of cellulose-based ethanol and it is signing confidentiality agreements with some U.S. companies to that end. BRENCO is focused on creating a sustainable supply to inspire investor and market confidence that would then be the basis for creating a global market for ethanol and biofuels. In BRENCO believes Brazil's supply capacity for ethanol will outpace demand, so a key Brazilian role is to create worldwide demand. By 2015, Brazil could supply 12 percent of the global market. In that context, a U.S.-Brazil partnership would be critical for creating a global market for ethanol and biofuels, and that it is essential to create a mechanism for ethanol

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producers (i.e. U.S. and Brazilian farmers) to become reliable suppliers.

¶8. (U) Another investment company, UBS Pactual Bank, is confident that investments will flow into stock in various projects, into the construction of new ethanol plants (estimated at 230), and into logistics expansion. UBS Pactual also believes that a growing demand for flex-fuel cars will increase demand for ethanol, but cautioned that the world market must have credibility and stability to accommodate potential price spikes if supply is compromised by climate conditions. UBS Pactual further commented that governments can help stabilize markets by controlling demand growth for ethanol and biofuels, but the international flow from producer to consumer is not obvious or guaranteed, especially with market-distorting mechanisms such as the U.S. tariff. Department of Energy officials responded that the current ethanol price mechanism of US\$0.51 per gallon aims to stimulate local oil companies to buy biofuels from domestic production. The \$0.54 tariff on imports is actually an offset to pay for domestic incentive.

Overcoming Opposition to a Global Biofuels Market -----

¶9. (U) A Brazilian delegate to the Intergovernmental Panel on Climate Change (IPCC), which is studying the potential impact of increased ethanol and biofuels production, also participated. He identified specific concerns about the real potential for biofuels and the need to address certain issues in order to have a positive impact. These included the designation of land to ethanol and biofuel crops, and the impact of biofuels on climate change (i.e., the speed of production will determine how quickly we can lessen harmful carbon emissions).

¶10. (U) Sensitive to allegations that increased ethanol production would damage the Amazon rainforest and drive up food prices, a Petrobras participant indicated that Brazil needed to define agricultural zones and social ramifications. (Note. Shortly after the event, the GOB released a map of zones where sugar cane plantations are prohibited because conditions in those areas are

considered inadequate for sugar cane. New sugar plantations and ethanol plants will require a social-environmental certification from the Brazilian standards institute INMETRO. End Note.)

¶11. (U) Brasil Ecodiesel, Brazil's largest biodiesel producer pioneer in biodiesel production in the country, highlighted the social aspect of biodiesel production. Its program has 57,000 farmers planting castor for Brasil Ecodiesel plants in six Brazilian states. DOE officials noted that biofuels became politically acceptable in the United States once the benefits to farmers became clear.

Next Steps

¶12. (U) All participants acknowledged that better coordination among government agencies in both Brazil and the United States is necessary to develop markets with guaranteed sources of supply, environmental regulations, harmonized standards, and IPR protection - all in partnership with the private sector and the academic community.

¶13. (U) Amb. Sobel asked Barton and Arvizu to take the lead on working with Brazil's biofuels community to explore areas of strategic cooperation and to develop concrete ideas for follow up. Barton suggested the best areas for next steps included developing partnerships between US and Brazilian universities and research institutions, beginning with NREL and CENPES (Petrobras' research center) launching a scientific exchange program in August 2007. Potential joint research programs could include exploration of second generation lignocelulose ethanol, and finding ways to reduce the corrosiveness and volatility of ethanol.

¶14. (U) Commerce's NIST will work with Brazilian and international standards bodies (ANP, INMETRO and ABNT) and the parties to the International Biofuels Forum to create compatible standards by the end of 2007 as a basis for a new global biofuels market. EMBRAPA plans to work with USDA to find ways to create a sustainable production system with increased crop yields. Once global supply sources are secured, discussions will begin on supply contracts. To that end, Barton suggested engaging the Pipeline Research Council (PRCI) to develop further U.S. infrastructure to accommodate increasing amounts of ethanol and biofuels in the U.S. fuel mix.

¶15. (U) This message was cleared/coordinated with Embassy Brasilia.

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